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S.D. council was told who owned Kroll

Peters' wife bought stock in parent firm

By Craig Gustafson
STAFF WRITER

The San Diego City Council had been informed about the parent company of Kroll Inc. before hiring the firm more than a year ago to independently investigate the city's pension and financial disclosure practices.

Council President Scott Peters disclosed Tuesday that his wife owns \$78,000 in stock in that parent company, Marsh & McLennan. Some of the stock was purchased the same day Peters voted in favor of Kroll's initial \$250,000 contract payment.

The council has now approved \$16.2 million in contracts with Kroll and its law firm. The company is expected to ask for \$3.3 million more.

Peters said neither he nor his wife knew of the connection until Monday.

However Kroll's managing director had notified the council

of the relationship with the parent company in a letter included as a supporting document for the council's Feb. 14, 2005, decision to hire Kroll. Such documents are included in the informational packets distributed to each council office several days before a meeting.

Peters' wife bought between \$10,000 and \$100,000 in stock in Marsh & McLennan, according to the councilman's annual economic interest statement filed Monday.

That wasn't the only time Peters' office was informed of a possible connection between the two companies.

Councilwoman Donna Frye sent an Aug. 31 letter to City Attorney Michael Aguirre and copied her council colleagues, including Peters. She asked a series of pension-related questions, including "Does Marsh McLennan own Kroll?"

The City Attorney's Office answered yes a week later, but Peters did not receive the response.

Peters has said his wife, Lynn, owned between \$68,000

and \$116,000 in Marsh & McLennan stock on the five occasions he voted in favor of Kroll contracts over the past year. She owns Cameron Holdings Corp., a private equity company in La Jolla, and holds stock in numerous companies, which her husband is required to file annually with the City Clerk's Office.

Scott Peters, who declined an interview request yesterday, issued a statement, saying he will "redouble" his efforts to ensure there are no potential conflicts when he votes.

"Any real or perceived conflict of interest is a serious matter that deserves scrutiny," he said.

Peters said he also plans to ask the council's Rules Committee to change how council members are notified of businesses that will be affected by their votes. Each week the council receives a list, but Peters said he would like to see it expanded to include any party with a financial interest in a particular item, such as lenders, underwriters and contractors.

The City Attorney's Office, which is investigating the stock holding, yesterday released the Feb. 10, 2005, letter written by Troy Dahlberg, Kroll's managing director. It reads: "Kroll is a separately operated wholly owned company of the Marsh & McLennan Companies."

City Attorney Michael Aguirre said his office will advise the council next week whether it needs to revote on the five contracts with Kroll, which he described as "definitely a possibility."

Robert Stern, president of the Center for Governmental Studies in Los Angeles, a non-partisan research organization that studies ethics and campaign laws, said it's unlikely that Peters violated the law.

"He's probably right. He probably never knew," Stern said. "It's very difficult to keep track of companies that your investment owns. So I would accept that."

Peters had previously sought the advice of the San Diego Ethics Commission about his wife's investments in Citigroup

and Lehman Brothers Holdings.

In a Feb. 28 letter, the commission advised Peters that his wife would need to own more than 3 percent of a company's stock or dividends from the stock would need to exceed 5 percent of the family's total annual income to show a prohibited financial interest.

While an analysis hasn't been done, it appears neither condition has been met since Marsh & McLennan is a *Fortune* 500 company and Lynn Peters' stock holding is relatively small, Stern said.

Stern said that Peters probably should recuse himself from future votes to avoid even the perception of a conflict.

"The question really is do officials have to look into everything that their investments own?" he said. "I suppose in San Diego they probably should because in San Diego ... you're very, very sensitive to all sorts of conflict questions."

Craig Gustafson: (619) 293-1884; craig.gustafson@uniontrib.com